



Councilmember Carl DeMaio

“Imagine What Our City Can Do If We Solve the City’s Financial Problems...”

2011 State of the District

&

Progress Report

on Reforming City Government

Good evening and thank you for being here tonight.

As I look around this theatre, I see so many familiar faces of individuals who have worked collaboratively with my office on a variety projects and initiatives.

Whether you serve on a planning board or town council, are a member of a neighborhood watch, or volunteer for a non-profit, thank you all for working hard to make our neighborhoods and our city a better place to live.

One of my favorite things about serving as your City Councilmember is to help our non-profit organizations raise money to carry out their services.

A few weeks ago I joined the Mira Mesa Cub Scout Troup #1209 at a luncheon to help them raise funds by auctioning off cakes made by the scouts themselves.

The scouts were asked to create cakes that depicted “What would the Cub Scout Troops of 100 years in the future be doing?”

I was absolutely amazed by the creativity of the cakes – one showed scouts on the moon, one showed scouts camping with robotic pack leaders, and another showed scouts battling aliens.

These scouts certainly have active imaginations.

Tonight I want to talk about the power of imagination.

The word “imagination” is defined as the ability to form a mental image of something that is not perceived through the senses; the ability to look at any situation from a different point of view; to see possibilities without regard to obstacles faced.”

I think you might agree that we need a little more imagination in city government – and tonight I want you to take a moment to imagine with me.

- Let’s imagine a city that has properly maintained streets – and sidewalks that do not present a hazard to pedestrians.
- Let’s imagine a city that – when you reduce your water use through conservation – you actually receive a lower water bill and save money.
- Let’s imagine a city where, when you dial 911, police officers and fire fighters can always get to your front door in the national response time or better.
- Let’s imagine a city that has libraries and parks that are open on a regular basis – so our children have a safe zone to go to after school.
- Lets imagine a city that has energy independence because of its sustainable practices and its embrace of renewable sources such as solar
- Let’s imagine a city that has a vibrant boardwalk that spans not just a few blocks, but from end-to-end of our harbor – and has spectacular public spaces in between, perhaps even a stadium

- And now let's imagine a city that can balance its budget without accounting gimmicks.

Many of you may think that we'll see cub scouts camping on the moon before you'd ever see our city government help achieve all of these things!

I think there are many San Diegans that, like you and me, share our imagination of a city with these kinds of amenities.

Unfortunately, city leaders have mismanaged our resources and therefore that city that we envision in our imagination has remained simply that: an exercise of our imagination.

For example, if our city leaders had started reforms seven years ago when we first pointed out the financial problems, today we would not be having back-and-forth discussions about how to scrape together money to expand the convention center.

We would actually be completing the expansion of the center right now.

And we wouldn't be concerned about keeping Comic-Con, but we would be aggressively recruiting five other comic-con sized events to come to San Diego.

That leads me to the reason why I ran for office and the single motivating force that has guided me every day in office:

- I want to fix our financial problems...
- I want to make city government work again in every area and
- I want to take that vibrant City that exists in our collective imaginations and make that City a reality.

And that is where my report to you begins tonight: with our continuing efforts to balance the city's budget.

As I look at the city's budget, I can tell you the level of waste and inefficiency in some city departments is staggering.

When I read through each of our labor contracts, I find salaries, benefits, and other perks that are far in excess of what you would see paid for similar work in the non-profit and private sectors locally.

On top of high labor costs, the city has bloated bureaucracies – where even good city employees are stifled by complex processes and old ways of doing business.

That's why we must fundamentally rethink how our city government operates – with an emphasis on delivering services under models that are faster, better, and cheaper.

And we must have city leaders that stand up to the labor unions and bring the taxpayers' voice back to the bargaining table when labor contracts are up.

We must insist that city leaders bring salaries and benefits for city employees back down in line with the local labor market.

Tonight I'm pleased to report some important progress on reforms that I have been able to get done.

When I took office, the city still hadn't implemented the Managed Competition program of open bidding for city services – a reform that I helped craft and pass with overwhelming public support in 2006.

With the labor unions blocking this reform, we used a variety of vehicles to build public pressure on City Hall to act. I even started a "managed competition clock" showing all the savings we were losing because of their delay.

Applying this pressure worked – and I'm pleased that competitions are now underway. But we cannot declare victory yet – city leaders and labor unions still do not want real competition. We must keep the pressure on and we must insist that competitions are conducted in an open, full and fair manner so we can maximize savings for taxpayers.

And when city leaders and downtown lobbyists wanted to build a brand new \$300 million City Hall, we led the opposition to this costly project and offered cost-saving

alternatives. This project is now off the table – and should remain so until we have repaired our neighborhood streets and sidewalks.

I recently asked my staff to compile a list of reforms that I had proposed and are now implemented – and to count the savings generated for taxpayers. Guess what? We have saved taxpayers over \$100 million in the last two years alone.

Those reforms include:

- Trimming a number of perks from labor contracts
- Reforming taxpayer contributions to the Supplemental Pension Plan – where city employees are receiving double pensions
- Preventing the Pension Board from using accounting games to underfund the system once again.
- Pressuring the pension board to reduce the risk-free interest rate on DROP accounts – an action that has saved millions off the city’s long-term pension liabilities
- Reducing subsidies on pension costs that should be paid by city employees
- And eliminating the \$9600 flat auto allowance for city politicians – and taking away the VIP tickets they were receiving for the luxury boxes at Petco Park and Qualcomm stadium

We’ve accomplished these results because we framed clear solutions, we educated the public, and – with your help – we kept applying pressure on city leaders to act.

If that makes some city leaders and special interest groups uncomfortable, I offer them no apologies. That’s the whole point of galvanizing public pressure on City Hall: to make them uncomfortable with “business as usual” and force them to act.

We have always pursued our reforms in a respectful, but resolute manner.

And look at the results, look at where the debate is today versus just a few years ago.

But while \$100 million in savings is a good start, it is still not nearly enough.

Tonight I ask you to recommit to pushing city leaders to implement the remaining reforms to solve our financial crisis once and for all.

In my first State of the District, I pledged to formulate and commit to a real Five Year Financial Recovery Plan – not just a forecast as we had at the time – but a plan with measurable targets and documented details for cutting expenses.

In November, I fulfilled that commitment with the release of the Roadmap to Recovery: a ninety-page, 10-point plan that contains hundreds of recommendations that can save taxpayers over \$1 billion in the next five years alone.

By making pension reform the centerpiece of the plan and rethinking how city services in each department are provided, the Roadmap brings our city's operating costs back down to sustainable levels.

Most importantly, the plan transforms five years of deficits into five years of surpluses.

Here's the kicker: Not one of the reforms outlined in the Roadmap requires the agreement or approval from the city's change-resistant labor unions. It simply requires a Mayor and a City Council majority willing to make tough decisions.

But there are some reforms that are simply too important to wait on. Of course, I am talking about the urgency of enacting comprehensive pension reform.

Tonight I am pleased to announce that I am working with a coalition of neighborhood, business and taxpayer groups to bring pension reform directly to the voters for the June 2012 election.

A complete pension solution should include three key components:

- First, we must end “pension spiking” by redefining and capping pensionable pay – the amount of compensation used in calculating life-long pensions payouts.
- Second, we must require that city employees pay their full and fair share of the cost of benefits.
- Third, the city’s current pension system should be closed for all new hires and any employee hired from that point forward should instead receive a standard 401(k) defined contribution retirement account.
- This reform is also a win-win for current employees.
- Existing employees will be able to opt-out of the old pension system and into 401(k) accounts – thus increasing their take-home pay.

I know the city’s labor unions will fight us – but sometimes the truth is difficult to accept.

Here are the facts: our pension payment will continue to grow from \$150 million last year to almost \$500 million in 2024. And those costs do not include other pension costs such as retiree health care.

We must recognize that life-long, taxpayer guaranteed pensions are a relic of the past. They are unsustainable and have forced too much financial risk on taxpayers.

And that’s why my proposal applies to all city employees – reflecting both a doctrine of fairness and an acceptance of fiscal realities.

Police and fire unions will insist that they should somehow be exempt from these reforms.

But a pension system that is not sustainable for a desk clerk does not somehow magically become sustainable for another classification of employee – regardless of how much we value the work done.

We must also recognize that public safety is more than half of the city's general fund budget. Excluding police and fire from pension reform will leave the city with an incomplete solution and will only prolong our fiscal crisis.

I pledge to you that we will continue to offer compensation packages that are sufficient and necessary to recruit and retain city employees to provide quality neighborhood services.

But while I keep this pledge, here's another pledge that I will never back down from: City employees should receive a retirement plan that is no better and no worse than the average San Diego taxpayer that is footing the bill.

Open government is a also passion of mine – and transparency is a key ingredient of the Roadmap plan. That's why I will continue to push for the city to enact the toughest sunshine laws in the nation by putting its performance measures, its checkbook, city contracts, and all employee salaries and compensation online. It's your money and you should know how city government is spending it.

Open government is also about improving the dialogue with the public. Anyone can submit ideas at our website: [Clean Up City Hall.com](http://CleanUpCityHall.com). Many of the reforms in the Roadmap plan came from public input. So give us your ideas for saving taxpayer money, and I will fight to implement them.

I'd argue that there is no level of government with a greater impact on our quality of life than city government. Once we stabilize the city's finances, we must focus all city departments on the singular mission of creating "clean and safe neighborhoods."

Given the new financial realities we face, we must rethink how neighborhood services are provided by adopting a new model – I call it the Collaborative Governance Model. Some may just call it common sense.

This model will rethink every government service to neighborhoods with a key question: how can we match the city government's role with a role for other government entities, a role for non-profits, a role for business, and a role for individuals?

Since taking office, I have used this model to advance a number of key projects in each neighborhood in District 5 – and these projects are starting to have a measurable impact on our lives.

The Mira Mesa Park Project is a perfect example of how the old city government model has failed, and this new collaborative model works better.

For the past fifteen years, plans have been in the works to improve Mira Mesa's largest park. But a lack of funding and follow-through have stalled the project year after year. With a growing population and the highest number of at-risk youth of any part of our district, this delay for Mira Mesa is simply unacceptable.

Tonight I'm pleased to announce that we are going to make that park expansion a reality before the end of my term. Working with several developers, we have secured the necessary private funding for a major renovation of the entire park that will expand our recreation facilities, add a skate park, reconfigure our ball fields, add an aquatics center, and create a beautiful walk-way along New Salem Street.

But once we obtained the funding to build the park, we encountered yet another problem: even if we built the park, the city does not have the funding to staff it. And this problem is becoming more common all around our city.

We propose to get around this problem by partnering with a local non-profit to open and operate the aquatics center, raise funds through a community foundation, and even explore the sale of naming rights. Every bit counts, and we must get creative, because in the end what matters is we get this park project done.

Volunteers will be an increasingly important part of providing neighborhood services in the future. Within five years, I want to equip every city department with a robust volunteer core that will work alongside city employees to provide services.

That's why we have made recruiting and recognizing community volunteers a top priority. I'm pleased to report that we now have established annual Volunteer Recognition Days in District 5 – such as the Rancho Bernardo “Hats Off To Volunteers” program where hundreds of community volunteers connected with our local non-profits.

City government can also partner with community groups in advancing other important services. As our population ages, we must be ready with a network of support services for the elderly. That's why I was proud to hold the first "Senior Services Summit" for our District – where we brought together leading providers and non-profits to identify and fill gaps in services for the elderly.

My office will continue to work to support and expand our local senior centers by providing city facilities for their operations and programming – and as we are currently doing with the Ed Brown Senior Center in Rancho Bernardo, facilitating discussions on how to form partnerships across non-profits for financial efficiency and one-stop service provision.

It comes as no surprise that the top service request we receive are for road repairs. Our roads are in terrible condition and only getting worse.

My office is tackling this issue in several ways.

- First, we must insist that the city publish an honest assessment of road conditions and reveal the true extent of our infrastructure deficit. By some accounts, if you included the city's infrastructure deficit into our financials, our annual budget deficit could range from \$120 million to almost \$200 million. We should be honest about the true infrastructure deficit and commit to closing it.
- Second, my staff and I are working to take the limited funds we have for road repairs and maximize them. In the past two years, I'm proud that we have resurfaced or replaced almost 50 miles of roads in district 5 and have another 28 miles of roads slated for work this year.
- But the city's efforts are still not enough to address the poor conditions of our roads. That's why I am proposing tonight a unique and innovative pilot program called the "Road Repair Rally." We intend to partner with local community organizations, volunteers and the boy scout troops to walk every street on a single day – to document where every pothole is. A non-profit organization will help make basic repairs, and city work crews will also work on more complex repairs. This Rally is designed to bring a focus and an immediacy of action to

get repairs done. Our pilot Road Repair Rally will be held in Scripps Ranch in April – and if successful will be expanded to every neighborhood in District 5 this year.

One of San Diego's strengths is its natural environment. I'd argue it is the main reason why most San Diegans came here and want to stay here. That's why I want to make San Diego the most sustainable city in America. The best way to achieve that is not through mandates, but through the marketplace.

This summer my office will organize a "Sustainable Living Summit" for residents to learn about technologies, rebates, and other ways to improve water and energy efficiency.

Unfortunately, all the outreach and awareness on sustainability – and all of the best intentions of San Diegans wanting to do the right thing for the environment – is being undone by a city government that is presenting obstacles.

Despite exceptional conservation by San Diegans that has led to a 9% reduction in our water usage in the past year, city water rates have gone up 65% since 2007 – to pay for increased labor costs for city employees.

Even before I took office, I had questioned the fact that \$28 million in bonuses had been paid out to water department staff over three years. A few months into my term, I requested that our City Auditor do a performance audit of the bonus program. The audit showed the bonuses were being paid to virtually every employee and in many cases could not be substantiated.

I'm pleased to report that, with that audit in hand and after two years of pressure by my office to end the program, city leaders are poised to do just that.

But we must do more to reduce costs in the water department.

That's why tonight I am announcing the formation of a task force to examine every facet of the water and wastewater departments with the goal of reducing rates by 15% and freezing rates for five years. This rate stabilization must be done without sacrificing our water quality or our ability to properly maintain water pipes.

The task force will look at reducing the workforce, stabilizing water supplies by expanding desalination projects and recycled water for irrigation, contracting out functions, reforming salaries and benefits, revising the rate structure to provide incentives for conservation, and utilizing public-private partnerships.

I hear from too many working families and seniors on fixed income that they simply cannot afford another rate hike. For them and everyone of us, we must demand comprehensive reform of city water rates.

Turning to energy, San Diego is blessed with its sunshine – and has been a natural leader in solar energy. Unfortunately, last year the city increased fees on solar projects by 600%. This is exactly the wrong direction we should be going in. That's why I'm proposing tonight that the city eliminate all fees on solar projects and permits for energy efficiency retrofits.

This policy is good for the environment and good for the consumers.

Aside from all of these individual service areas, we are always seeking to bring city government closer to our customers. We continue to host regular Town Hall meetings to solicit resident input and bring city government right to people's front doors – through our Neighborhood Outreach Program. We have walked every single neighborhood in District 5 at least once, and usually twice, asking residents at their door if they had any service problems to report in the area.

City government must also be accessible by embracing new technologies. Tonight I'm pleased to announce that my office has partnered with a software company to develop and deploy an application for smart phones.

Once the application is downloaded, a resident can access city government easily, report a problem, and request a service. For example, if you see a street light out, graffiti on a wall, or a shopping cart abandoned, you can open the application, type your request or take a picture of the problem, and GPS will tell us exactly where the problem is.

With this new application, city services can be faster, better, cheaper – all at your finger tips on your smart phone.

Fixing city finances and improving neighborhood services requires a strong economy. In June, I will be unveiling a comprehensive economic development strategy called the “Path to Prosperity.”

I figured if we had a Roadmap to balance the city’s budget, we should also have a path to getting San Diegans back to work.

My office will be focusing on economic development strategies in five core sectors that reflect the strongest suit San Diego has to play in an increasingly competitive economy. Those sectors are defense, tourism, communications, bio tech and clean tech. District 5 is fortunate to be the home to many of the leading companies in these sectors.

But from the input we are receiving from business leaders and experts, our city government is more of a hindrance than a help to job creation and retention in our region. We must change that – and fast.

I’m tired of hearing about governors and mayors from across the country coming here to San Diego and successfully convincing our companies to relocate – taking their jobs and tax base with them.

I will continue to fight for business-friendly policies that not only retain the businesses we have now, but help us attract new businesses to our region.

We can start by **rejecting tax and fee increases.**

If you want more revenue, the best way to sustainably achieve that is to expand jobs, rather than tax and charge the existing job base to death.

- With your help, we defeated Prop D in the November election – a measure that would have increased taxes on San Diegans by a half-a-billion dollars over five years. Hopefully city leaders will finally hear that message and take future tax increases off the table.
- When I took office I pledged to reduce the “double tax” applied on business and rental licenses where the city was charging a fee to

collect a tax. By keeping the pressure on, we forced the city to end this practice.

Unfortunately, despite these two wins, we have seen a variety of fees increased to cover the rising cost of city salaries and pensions. Conversely, if we succeed with pension reform and achieve cost efficiencies, we should be able to drive city fees lower.

We also must improve how city departments interact with businesses – with an emphasis on improving cycle time for decisions. As a businessman I can tell you first hand – TIME is money.

That's why in June of last year I released an eight-point Small Business Action Plan outlining ways to reduce bureaucratic red tape and enhance business development and promotional programs. We're making progress on implementing those reforms – and recently built a coalition of five city councilmembers to move forward on reforms to strengthen our Business Improvement Districts throughout the city.

Finally, we must reject policies that give San Diego a bad reputation – such as bans on Wal-Mart or labor unions mis-using the authority of the city government to impose union-only requirements on businesses. In essence, by imposing these mandates, our own city government is telling San Diegans seeking a job that they need not apply if they are not a member of a union. That's just wrong – it costs our city much-needed private investment and jobs.

To end these bad policies, tonight I'm pleased to announce that I will be joining with a number of small business groups – led by our city's construction industry – to ban these union-only mandates.

By reducing the cost of operating in San Diego, getting businesses through city processes faster, and rejecting unfair mandates, we can position our city where it should be: as the friendliest city for job creation and retention in the nation.

I want to end tonight by returning to the power of imagination.

The cub scouts imagined camping on the moon – tonight, we have imagined a city government that can do big things again.

But we must go beyond imagination: we must seize this moment and make the dreams of our city a REALITY.

Converting imagination into reality requires two things.

First, it requires ingenuity.

We have some great ideas – and I'm convinced there is no problem too big for the collective talent and creativity of San Diegans.

Second, it requires hard work.

And I know none of us are strangers to hard work.

So let's leave tonight committed to working together – fueled by our imagination and poised to transform that great city in our minds into reality.

Thank you for coming tonight.

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